

Message Text

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ACTION EUR-12

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NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

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R 161525Z SEP 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 5023

INFO AMEMBASSY BONN

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USMISSION EC BRUSSELS

USMISSION OECD PARIS

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PASS TREASURY, FEDERAL RESERVE, COMMERCE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 25670, SEPTEMBER 2, L976

1. SUMMARY --

ALMOST ALL OF THE ECONOMIC NEWS FOR THE LAST
SEVERAL WEEKS HAS CONSISTED OF SPECULATION AND
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SUGGESTIONS WITH REGARD TO THE ANTI-INFLATIONARY

PROGRAM TO BE ANNOUNCED SEPTEMBER 22. PRIME MINISTER BARRE HAS DISCUSSED THE SITUATION WITH ALL MAJOR INTEREST GROUPS WHILE MAINTAINING HIS OWN COUNSEL. THE ONLY STRAW HE HAS THROWN TO THE FRENCH PEOPLE, ANXIOUSLY AWAITING THE ANNOUNCEMENT OF THE EFFORT WHICH WILL BE EXPECTED OF THEM, IS THAT THIS EFFORT WILL BE DISTRIBUTED ON AN EQUITABLE BASIS.

2. PRIME MINISTER BARRE CONTINUES TO KEEP HIS PUBLIC IN THE DARK--

IN A TELEVISED INTERVIEW ON SEPTEMBER 13 PRIME MINISTER BARRE MADE VIRTUALLY NO ATTEMPT TO SATISFY THE CURIOSITY OF A NATION ANXIOUS TO KNOW THE FORM OF THE ANTI-INFLATIONARY PROGRAM WHICH HE IS TO ANNOUNCE SEPTEMBER 22. WHETHER M. BARRE IS RESERVING THE ELEMENTS OF HIS PROGRAM FOR ITS TOTAL SURPRISE IMPACT OR

WHETHER HE SIMPLY HAS NOT DECIDED ON ITS CONTENTS IS NOT KNOWN, BUT, IN ANY CASE, HE CHOSE ON MONDAY EVENING TO DESCRIBE HIS PROGRAM ONLY IN THE BROADEST GENERALITIES. AT THE MOST HE INDICATED THREE GOALS OF THE PLAN: IT WILL BE A POLICY FOR THE WHOLE OF FRANCE, I.E. FOR ALL SOCIO-PROFESSIONAL CATEGORIES; IT WILL BE A POLICY OF EQUITY IN THE DISTRIBUTION OF THE SACRIFICES WHICH THE FRENCH WILL BE ASKED TO MAKE; AND IT WILL EMPHASIZE CONTINUAL AND GLOBAL ACTION AGAINST THE INCREASE IN PRICES DESIGNED TO PRODUCE DURABLE RESULTS. M. BARRE ALSO REAFFIRMED TO THE UNIONS THAT THE CONTRACTURAL WAGE POLICY WILL BE MAINTAINED (ALTHOUGH THE POSSIBILITY IS NOT EXCLUDED THAT THE GOVERNMENT MIGHT EXERT STRONGER CONTROL OVER IT) AND THAT THE WAGE CONTRACTS ALREADY DRAWN UP FOR 1976 WILL CONTINUE TO BE RESPECTED.

3. GOF CLAIMS 1976 BUDGET DEFICIT WILL BE FF 10-14 BILLION --

DESCRIBING AS "ALARMIST" RECENT PRESS SPECULATION THAT THE 1976 GOF BUDGET DEFICIT MAY GO AS HIGH AS UNCLASSIFIED

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FF 20 MILLION, THE MINISTRY OF ECONOMICS AND FINANCE HAS REAFFIRMED THAT THE DEFICIT SHOULD RANGE BETWEEN FF 10-14 BILLION. THIS ESTIMATE IS BASED ON THE EXPECTATION OF HIGHER GOVERNMENT RECEIPTS IN THE FINAL QUARTER OF THE YEAR. FOR EXAMPLE, ENTERPRISES HAVE BEEN AUTHORIZED TO DELAY UNTIL THE END OF THE YEAR A LARGE PART OF THEIR TAXES ON REVENUE. THE VALUE ADDED TAX IS ALSO EXPECTED TO SHOW HIGHER RECEIPTS DURING THE

FALL DUE TO THE RESUMPTION OF ACTIVITY FOLLOWING THE
VACATION PERIOD. THE GOVERNMENT IS FURTHER COUNTING ON
THE TAX OF SOLIDARITY TO FINANCE THE PROMISED AID TO
DROUGHT VICTIMS. FINALLY, THE BARRE PLAN TO BE
ANNOUNCED SEPTEMBER 22 COULD INCLUDE IMPORTANT
ECONOMIES IN GOVERNMENT EXPENDITURE. THESE GOVERNMENT
ESTIMATES OF THE BUDGET DEFICIT PROBABLY DO NOT MAKE
ANY ALLOWANCE FOR THE SOCIAL SECURITY PROGRAM WHICH IS
EXPECTED TO RUN A FF 2-3 BILLION DEFICIT THIS YEAR, AND
THEY ALMOST CERTAINLY DO NOT TAKE INTO ACCOUNT THE

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BORROWINGS OF GOVERNMENT-OWNED AND QUASI-INDEPENDENT ENTERPRISES.

4. MONEY SUPPLY CONTINUES LOWER RATE OF GROWTH IN JUNE--

THE MONTHLY INCREASE IN THE SEASONALLY ADJUSTED MONEY SUPPLY (M2, BROADLY DEFINED) WAS ONLY 0.4 PERCENT IN JUNE, DOWN FROM 0.8 PERCENT IN MAY. THE INCREASE OVER JUNE 1975 WAS 19.2 PERCENT. M2 STOOD AT FF 811.1
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BILLION, M1 AT FF 427.0 BILLION (0.5 PERCENT INCREASE FROM MAY), AND NEAR MONIES AT FF 385.4 BILLION (1.6 PERCENT INCREASE).

ON AN UNADJUSTED BASIS M2 WAS FF 817.6 BILLION (2.3 PERCENT INCREASE OVER MAY), M1 WAS FF 436.8 BILLION (4.0 PERCENT INCREASE) AND NEAR MONIES WERE FF 380.8 BILLION (0.4 PERCENT INCREASE).

THE UNADJUSTED NET FOREIGN EXCHANGE RESERVES STOOD AT FF 41.1 BILLION (DOWN 0.6 PERCENT), CLAIMS ON THE

PUBLIC SECTOR AT FF 107.8 BILLION (UP 4.2 PERCENT), AND CLAIMS ON THE PRIVATE SECTOR AT FF 693.2 BILLION (UP 2.4 PERCENT).

5. CURRENT ACCOUNT DEFICIT DECREASES SUBSTANTIALY IN SECOND QUARTER --

PROVISIONAL BALANCE OF PAYMENTS DATA FOR SECOND QUARTER 1976 SHOW A MARKED DECREASE IN THE SECOND QUARTER CURRENT ACCOUNT DEFICIT, DOWN TO FF 2.9 BILLION FROM A DEFICIT OF FF 6.3 BILLION IN THE FIRST QUARTER. THE FINANCE MINISTRY ATTRIBUTES THIS IMPROVEMENT TO A STRONG INCREASE IN EXPORTS, A SLOWING-DOWN IN THE GROWTH OF IMPORTS AND A LARGE INCREASE IN NET SERVICES DUE PRIMARILY TO TOURISM.

FRENCH BALANCE OF PAYMENTS
(IN BILLIONS OF FRANCS; DATA FOR SECOND QUARTER PRELIMINARY, DATA FOR FOURTH QUARTER 1975 AND FIRST QUARTER 1976 REVISED.)

	75-III	75-IV	76-I	76-II
TRADE BALANCE	1.7	-1.6	-3.9	-1.9
NET SERVICES	0.2	2.1	0.0	#1.5

BALANCE ON GOODS AND

SERVICES	1.9	0.5	-3.9	-0.4
NET TRANSFERS	-2.4	-2.5	-2.4	-2.5
BALANCE ON CURRENT ACCOUNT	-0.6	-2.0	-6.3	-2.9
LONG-TERM CAPITAL, NET	-L.7	-0.1	-2.6	-2.2

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BASIC BALANCE	-2.2	-2.1	-8.9	-5.1
SHORT-TERM CAPITAL PLUS				
OMISSIONS	7.2	3.1	-0.2	#5.2
BALANCE ON NONMONETARY				
TRANSACTIONS	5.0	1.0	-9.1	0.1

THE DEFICIT ON THE MERCHANDISE TRADE ACCOUNT (INCLUDES "COURTAGE," OR THIRD-COUNTRY COMMODITY-BROKERAGE ACTIVITIES) DECREASED FROM FF 3.9 BILLION IN THE FIRST QUARTER TO FF 1.9 BILLION IN THE SECOND QUARTER. NET SERVICES, WHICH HAD BEEN IN BALANCE THE FIRST QUARTER, REGISTERED A SURPLUS OF FF 1.5 BILLION. TOURISM WAS THE MAJOR FACTOR CONTRIBUTING TO THIS INCREASE, SHOWING A SURPLUS OF FF 0.9 BILLION FOR THE SECOND QUARTER AS COMPARED TO A DEFICIT OF FF 0.1 BILLION IN THE FIRST QUARTER. THE DEFICIT IN TRANSFER PAYMENTS REMAINED VIRTUALLY UNCHANGED AT FF 2.5 BILLION.

THE CAPITAL ACCOUNT SHOWED A SHARP IMPROVEMENT, FROM A DEFICIT OF FF 2.8 BILLION IN THE FIRST QUARTER TO A SURPLUS OF FF 3.0 BILLION. LONG-TERM CAPITAL CONTINUED TO RESULT IN A NET OUTFLOW, FF 2.2 BILLION FOR THE SECOND QUARTER DOWN SLIGHTLY FROM FF 2.6 IN THE FIRST QUARTER. THIS LATTER FIGURE IS A MAJOR REVISION FROM THE PREVIOUSLY REPORTED PROVISIONAL DATA FOR THE FIRST QUARTER (SEE PARIS 16972) WHICH SHOWED A NET

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LONG-TERM CAPITAL INFLOW OF FF 1.0 BILLION. IN THE SECOND QUARTER A DECREASE IN FOREIGN BORROWING (FF 2.5 BILLION, DOWN FROM FF 5.6 BILLION IN THE FIRST QUARTER) WAS OFFSET BY A DECREASE IN COMMERCIAL CREDITS ACCORDED TO FOREIGN BUYERS OF FRENCH PRODUCTS (FF 2.8 BILLION, DOWN FROM FF 5.1 BILLION IN THE FIRST QUARTER.) THE NET OUTFLOW OF LONG-TERM CAPITAL WAS MORE THAN OFFSET BY AN FF 5.2 BILLION INFLOW OF SHORT-TERM CAPITAL WHICH THE MINISTRY OBSERVED WAS MOSTLY OF UNCLASSIFIED

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A SPECULATIVE NATURE.

6. OTHER REPORTS SUBMITTED DURING THE PERIOD --

TELEGRAMS

PARIS

25703 FINANCING OF EAST-WEST TRADE (C-ER-6-50119) 9/3

26018 THE ECONOMIC VIEWS OF RAYMOND BARRE 9/8

26027 FRENCH DELEGATION TO IMF/IBRD ANNUAL
MEETINGS 9/8

AIRGRAMS

PARIS

A-369 THE SEVENTH FRENCH ECONOMIC PLAN (1976-80) 9/2

A-370 FRENCH FOREIGN EXCHANGE HOLDINGS 9/3

A-373 FRENCH FOREIGN EXCHANGE HOLDINGS 9/L0

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